

Message Text

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ACTION STR-07

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INFO AMEMBASSY BONN
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E.O. 11652: N/A
TAGS: EAGR, ETRD, AU, US
SUBJ: US-AUSTRIA GATT ARTICLE XXII CONSULTATIONS ON
- OILSEEDS

REF: VIENNA 5313

1. THE TEXTS OF THE "SUMMARY OF U.S. POSITION" AND AN
"ADDENDUM," WHICH WERE GIVEN TO THE AUSTRIAN DELEGATION
AT THE CONCLUSION OF THE ARTICLE XXII CONSULTATIONS ON
JUNE 8 AND 9, 1978, FOLLOW:

2. QUOTE: SUMMARY OF U.S. POSITION
- A. THE DRAFT BILL IMPAIRS IMPORTANT GATT CONCESSIONS
- GRANTED BY AUSTRIA TO THE UNITED STATES.
THE UNITED STATES GOVERNMENT VIEWS THE PROPOSED "CON-
SUMPTION TAXES" ON OILSEED MEALS AND CERTAIN RELATED
PRODUCTS AS BEING CLEARLY INCONSISTENT WITH THE PROVI-
SIONS OF GATT ARTICLE III. THE "TAXES" EFFECTIVELY
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OPERATE AS SUPPLEMENTARY IMPORT CHARGES IN EXCESS OF
BOUND TARIFF RATES AND, AS SUCH, ARE INCONSISTENT WITH
ARTICLE II. THESE SUPPLEMENTARY CHARGES, MOREOVER, WOULD
IMPAIR IMPORTANT CONCESSIONS GRANTED BY AUSTRIA TO THE
U.S. IN THE DILLON AND KENNEDY ROUNDS -- THE MOST IM-
PORTANT OF THESE CONCESSIONS (I.E., ON SOYBEAN MEAL)
WAS REAFFIRMED IN CONSULTATIONS IN 1969.

PARAGRAPH ONE OF ARTICLE III STATES A GENERAL OBLIGATION FOR THE CONTRACTING PARTIES NOT TO APPLY INTERNAL TAXES OR OTHER MEASURES TO IMPORTED OR DOMESTIC PRODUCTS SO AS TO AFFORD PROTECTION TO DOMESTIC PRODUCTION. THE PROPOSED AUSTRIAN "TAXES" ARE OBVIOUSLY INTENDED TO AFFORD PROTECTION TO DOMESTIC PRODUCTION. THE AUSTRIAN AUTHORITIES STATE THAT THE PRINCIPAL PURPOSE OF THE PROGRAM IS TO FOSTER THE PRODUCTION OF DOMESTIC OILSEEDS." BY ARTIFICIALLY INCREASING THE PRICE OF OILSEED MEALS AND BY SUBSIDIZING DOMESTIC PRODUCERS, FEED MANUFACTURERS WILL BE ENCOURAGED TO USE INCREASED QUANTITIES OF DOMESTICALLY PRODUCED GRAINS AND MEALS NOT COVERED BY THE PROGRAM AT THE EXPENSE OF IMPORTS.

PARAGRAPH TWO OF ARTICLE III PROVIDES THAT CONTRACTING PARTIES SHALL NOT APPLY "INTERNAL TAXES OR OTHER INTERNAL CHARGES OF ANY KIND IN EXCESS OF THOSE APPLIED, DIRECTLY OR INDIRECTLY, TO LIKE DOMESTIC PRODUCTS. MOREOVER, NO CONTRACTING PARTY SHALL OTHERWISE APPLY INTERNAL TAXES OR OTHER INTERNAL CHARGES TO IMPORTED OR DOMESTIC PRODUCTS IN A MANNER CONTRARY TO THE PRINCIPLES SET FORTH IN PARAGRAPH ONE."

AUSTRIAN PRODUCTION OF OILSEED MEALS, OILS, ETC., IS NEGLIGIBLE. MOREOVER, AUSTRIA DOES NOT PRODUCE THE MAJOR LIMITED OFFICIAL USE

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ITEM SUBJECT TO THE TAX, NAMELY SOYBEAN MEAL. THUS, VIRTUALLY THE ENTIRE BURDEN OF THE PROPOSED "TAXES" WOULD FALL ON IMPORTED PRODUCTS, ESPECIALLY SOYBEAN MEAL. EVIDENCE OF THIS APPEARS IN AN OFFICIAL PAPER (CCP: OF 77/CRS 4 ADD. 2, DATED MARCH 1977) PRESENTED TO THE FAO, IN WHICH THE AUSTRIAN SPOKESMAN CONTENDED THAT AUSTRIA HAD NO PROCESSING FACILITIES FOR OILSEEDS AND THAT THE COUNTRY WAS STILL ATTEMPTING TO IDENTIFY SUITABLE OILSEEDS FOR DOMESTIC CULTIVATION. AT THE UNIDO SESSION IN MADRID IN DECEMBER OF 1977, AUSTRIAN INDUSTRY SPOKESMAN NOTED THAT COMMERCIAL PRODUCTION OF OILCAKE AND MEAL AND VEGETABLE OILS MIGHT BEGIN IN AUSTRIA BY 1979 OR 1980 FOLLOWING ERECTION OF AN OILSEED PROCESSING PLANT.

THE AUSTRIAN DELEGATION HAS CONTENDED THAT AUSTRIA PRODUCES SMALL QUANTITIES OF RAPESEED, SUNFLOWER AND PUMPKIN SEED OIL AND MEAL. THIS PRODUCTION, IF CONFIRMED, IS LIKELY TO BE HIGHLY LOCALIZED AND GENERALLY OUTSIDE THE COMMERCIAL MARKETING STREAM. AT BEST, WE ESTIMATE OUTPUT AT ABOUT ONE PERCENT OF MEAL UTILIZATION, AND CRUDE OIL OUTPUT AT THREE PERCENT OF ANNUAL CONSUMPTION. ON THIS BASIS, THE TAX WOULD FALL ALMOST ENTIRELY ON IMPORTS,

PRODUCING PROBABLY OVER NINETY-EIGHT PERCENT OF THE TOTAL REVENUE GENERATED.

- B. THE DRAFT BILL RUNS COUNTER TO BASIC GATT
- OBJECTIVES.

IN OUR VIEW, OILSEED PRODUCTION IN AUSTRIA CANNOT BE EXPANDED WITHOUT A HEAVY SUBSIDY PAID EITHER DIRECTLY OR INDIRECTLY TO FARMERS. HOWEVER, THE PROPOSED TAX ON VEGETABLE PROTEIN WOULD RAISE COSTS TO FEEDERS, SIGNIFICANTLY DISCOURAGING ITS USE WHILE ENCOURAGING THE USE OF OTHER FEEDSTUFFS NOT COVERED BY THE TAX. THIS LATTER GROUP WOULD INCLUDE (BUT NOT BE LIMITED TO) SURPLUS GRAINS, ANIMAL MEALS (MEAT, BLOOD, FEATHER, BONE, ETC.) FISH MEAL, MOLAS-

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SES, LUCERNE, ETC.

SINCE IMPORTS ACCOUNT FOR ALMOST ALL VEGETABLE PROTEIN CONSUMPTION IN AUSTRIA, THE PROGRAM WILL FOSTER THE DEVELOPMENT OF AN INEFFICIENT DOMESTIC INDUSTRY TO THE DETRIMENT OF NATIONS EXPORTING VEGETABLE PROTEIN TO AUSTRIA. THIS IS CLEARLY CONTRARY TO THE BASIC GATT OBJECTIVE OF DISCOURAGING DOMESTIC POLICIES WHICH FOSTER THE GROWTH OF INEFFICIENT DOMESTIC INDUSTRIES BY DISCRIMINATING AGAINST IMPORTS.

- C. THE PROPOSED BILL WOULD HAVE EXTENSIVE ECONOMIC
- AND POLITICAL CONSEQUENCES.

THE ADOPTION OF THE PROPOSED BILL WOULD BE A PROTECTION-
IST MEASURE. AT THE POLICY LEVEL, GOA OFFICIALS HAVE
PUBLICLY ARGUED STRONGLY AGAINST PROTECTIONISM. ADOPTION
OF A PROTECTIONIST MEASURE AT THIS TIME WOULD PROVIDE
FURTHER IMPETUS FOR THE GROWTH OF PROTECTIONISM WHICH WOULD
IMPEDE HOPES FOR A WORLDWIDE ECONOMIC RECOVERY AND WOULD
PARTICULARLY HURT COUNTRIES, SUCH AS AUSTRIA, WHICH ARE
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HEAVILY DEPENDENT ON FOREIGN TRADE.

ADOPTION OF THE PROPOSED PROGRAM WOULD SET A DANGEROUS
PRECEDENT FOR IMPAIRMENT OF TRADE OBLIGATIONS IN INTERNA-
TIONAL OILSEED TRADE. OTHER NATIONS WITH TRADE COMMITMENTS
SIMILAR TO AUSTRIA'S IN THE OILSEEDS SECTOR MIGHT WELL BE
ENCOURAGED TO TAKE SIMILAR ACTION.

TO COUNTER THIS PRECEDENT AND TO PROVIDE FOR DOMESTIC
POLITICAL CONCERNS, THE U.S. WOULD HAVE NO CHOICE BUT TO
RESPOND DECISIVELY TO AUSTRIA'S ADOPTION OF THIS PROPOSAL.
THE U.S. OILSEED INDUSTRY, AS WELL AS CONGRESS, IS VERY
SENSITIVE TO ANY ACTION NULLIFYING U.S. TRADE RIGHTS IN
THE OILSEED SECTOR. IT WILL UNDOUBTEDLY PRESS THE U.S.
GOVERNMENT AT THE HIGHEST LEVELS TO REACT VIGOROUSLY TO
PROTECT ITS GATT INTERESTS IF THE PROPOSED PROGRAM IS
ADOPTED. UNQUOTE.

3. QUOTE: ADDENDUM -- DURING THE GATT ARTICLE XXII CON-
SULTATIONS, THE AUSTRIAN DELEGATION STRESSED REPEATEDLY
THAT THE PROPOSED DRAFT BILL MET THE LEGAL REQUIREMENTS
OF THE GENERAL AGREEMENT BECAUSE THE "CONSUMPTION TAXES"
WOULD BE APPLIED BOTH TO DOMESTICALLY-PRODUCED AND TO IM-
PORTED PRODUCTS. IN ORDER TO BETTER UNDERSTAND THIS CON-
TENTION, THE U.S. DELEGATION ASKED ON JUNE 8 FOR INFORMATION
ON THE AUSTRIAN DOMESTIC PRODUCTION OF OILSEED CAKE/MEAL
AND VEGETABLE OILS THAT WOULD BE SUBJECT TO THE PROPOSED
TAXES. THE INFORMATION REQUESTED WAS TO INCLUDE INDUSTRIAL
DATA ON OUTPUT BY TYPE, INDUSTRY SIZE AND LOCATION, QUALITY
OF OILCAKE IN TERMS OF PROTEIN CONTENT OF FEED VALUE, USES
OF VEGETABLE OIL, AND APPLICABLE MARKET PRICES. THE RE-
VENUES EXPECTED TO BE DERIVED FROM THE PROPOSED TAXES ON
DOMESTICALLY-PRODUCED AND IMPORTED PRODUCTS, RESPECTIVELY,
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WERE ALSO REQUESTED.

WHILE THE AUSTRIAN SIDE AGREED TO HAVE THIS INFORMATION AVAILABLE FOR THE JUNE 8 SESSION, THE ONLY DATA PROVIDED NOTED 80 OIL MILLS WITH A REPORTED CAPACITY OF 15,000 TONS ANNUALLY. NO INFORMATION ON THE ANTICIPATED TAX BREAK-DOWN BETWEEN DOMESTIC PRODUCTION AND IMPORTS WAS PROVIDED. THE U.S. DELEGATION EXPRESSED CONCERN OVER THE INSUFFICIENT INFORMATION WHICH WAS FORTHCOMING IN RESPONSE TO ITS REQUEST. THE CONCLUSIONS DRAWN FROM THE LIMITED RESPONSE TEND TO CONFIRM THE U.S. POSITION THAT THE IMPACT OF THE TAX BURDEN WOULD FALL ALMOST, IF NOT ENTIRELY, ON IMPORTED OILCAKE AND VEGETABLE OIL. THE U.S. DELEGATION ALSO MAINTAINED ITS VIEW THAT THE TAX DOES NOT APPEAR TO COVER ALL DIRECTLY COMPETITIVE AND SUBSTITUTABLE PRODUCTS USED IN FEED OR FOOD USE SUCH AS LUCERNE AND SURPLUS GRAINS. UNQUOTE. WOLF

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